

# MINUTES

## SOUTH DAKOTA INVESTMENT COUNCIL Pierre, South Dakota August 23, 2022

### 1) Roll Call

The meeting was called to order at 8 a.m. on August 23, 2022 by Chair Greg Kulesa. Council members in attendance were Mary Howard, Loren Koepsell, Greg Kulesa, Steve Pietila, Kelly Meiners, Jarrod Johnson, and Travis Almond. Josh Haeder was absent.

Others attending all or part of the meeting included Investment Council Staff members Matt Clark, Chris Nelson, Tammy Otten, John Richter, Danielle Mourer, Darci Haug, Anne Cipperley, Jan Zeeck and Sarah Rust.

(Note: For sake of continuity, the following minutes are not necessarily in chronological order. Documents referenced are on file in the Investment Council office, and public access is subject to the provisions of SDCL 1-27.)

#### AGENDA ITEMS:

- 1) Roll Call
- 2) Minutes (June 2, 2022 & July 20, 2022)
- 3) Public Comment
- 4) Investment Performance FY 2022 & Incentive Summary
- 5) Investment Update – FY 2023
- 6) Iran Divestiture Update
- 7) SDIC Shareholder Activism Report
- 8) Audit Committee Update
- 9) Compensation Committee Update
- 10) Investment Performance Incentive Plans - Update
- 11) CD Program 2022/2023
- 12) 529 Higher Education Savings Program - Update
- 13) Limited Partnerships Review
- 14) Executive Board Meeting Review
- 15) New/Old Business
- 16) Future Meeting Dates
- 17) Adjournment

### 2) Minutes

LOREN KOEPSSELL MOVED, SECONDED BY JARROD JOHNSON, TO APPROVE THE MINUTES OF THE JUNE 2, 2022 AND JULY 20, 2022 INVESTMENT COUNCIL MEETINGS. MOTION PASSED UNANIMOUSLY.

### 3) Public Comment

There were no public comments.

### 4) Investment Performance FY 2022 & Incentive Summary

Tammy Otten reviewed investment performance for Fiscal Year 2022. The South Dakota Retirement System (SDRS) performance analysis included an overview of the Capital Markets Benchmark (CMB) including returns for the equity, real estate, fixed income, and cash indexes used in the benchmark. The quarterly and year-end time-weighted rates of return of the Council's CMB were provided. A comparison of the actual asset allocation as of June 30, 2022, to the CMB and permissible ranges was provided.

Otten reviewed the return attribution analysis of the SDRS net return relative to the CMB. The analysis detailed differences in performance resulting from the return within each asset category versus the market index for that category, as well as the impact of asset allocation resulting from using different allocations to asset categories than those of the CMB. The cumulative impact of the

sources of added or detracted value was shown for the last 5 years and cumulatively for 5, 10, 20 and 24 years when this detailed level of analysis began to be calculated for all asset categories.

A table was provided that compared the annualized returns for selected periods for the last 10 years to public pension universes.

Otten reviewed exhibits focused on major individual asset categories comparing the returns earned from each category to the respective benchmark for FY2022 and historical periods. Jan Zeeck discussed major contributors to performance for public equity.

Otten then presented a summary of the return and attribution analysis versus benchmarks for each of the four trust funds.

Clark reviewed the summary of the earned incentives by Investment Council staff for FY 2022 and described the support staff incentive program which is funded from the earned incentives. He reviewed details of the State Investment Officer's earned incentive and noted that the incentives would be paid following completion of the audit.

5) Investment Update – FY 2023

Tammy Otten reviewed completed actions for motions from prior Council meetings. Assets and estimated returns fiscal year to date were reported for SDRS. Clark provided an update for the Bristow investment.

6) Iran Divestiture Update

Otten reviewed a memo dated July 19, 2022, on the Iran Scrutinized Companies List. Staff recommended no changes to the Council's list.

7) SDIC Shareholder Activism Report

Otten confirmed the Council received a copy of the Shareholder Activism Policy report provided to the Legislative Research Council as required by law. Included was a memo outlining compliance with the policy and a copy of the policy.

8) Audit Committee Update – Mary Howard

Mary Howard, Chair of the Audit Committee, stated that the Audit Committee will meet with Department of Legislative Audit next week. The goal for completion of the audit is the end of September.

9) Compensation Committee Update – Greg Kulesa, Chair

Greg Kulesa, Chair of the Compensation Committee, reminded the Council of the incentive change approved at the prior meeting and indicated that the change would be explained to the Executive Board in the meetings today.

10) Investment Performance Incentive Plans - Update

Matt Clark discussed the documentation of the change to Investment Performance Incentive Plans. He stated the change would apply to the staff but not include the State Investment Officer as compensation for the State Investment Officer is established by the Executive Board. He said the State Investment officer compensation was already determined by the Executive Board at their May meeting which was prior to the Incentive Plan change. He noted that an updated compensation study is completed every three years and another study will be done this year. Clark discussed the cost of the data to update the study in response to a question from the Council.

11) CD Program 2022-2023

Matt Clark reviewed the two memorandums previously provided to the Council that provided a history of the CD program and details for this year's CD program, including the size of the program, the time and date for setting the rate, the method of determining the interest rate, the terms, and reallocations. He recommended continuing the program.

STEVE PIETILA MOVED, SECONDED BY TRAVIS ALMOND, TO APPROVE THE SOUTH DAKOTA CASH FLOW FUND CERTIFICATE OF DEPOSIT PROGRAM FOR ONE-YEAR CDS TO MATURE SEPTEMBER 29, 2023, IN ACCORDANCE WITH SOUTH DAKOTA LAW AND THE CD PROGRAM ADMINISTRATIVE RULES, AT \$35 MILLION WITH THE INTEREST RATE BASED ON THE 1-YEAR TREASURY NOTE WITH A FLOOR OF 0%, PLUS .15% FOR LIQUIDITY AND COLLATERAL RISK. MOTION PASSED UNANIMOUSLY.

12) 529 Higher Education Savings Program - Update

Tammy Otten reviewed the report of assets in the CollegeAccess 529 Plan as of 6/30/22. The minutes of the quarterly conference call with VP Distributors, LLC and Virtus Fund Advisers, LLC and the compliance schedule were provided. VP Distributors recommended PricewaterhouseCoopers as the auditor for the 529 plan for the year ended December 31, 2022

Matt Clark reviewed investment option changes proposed by VP Distributors, LLC and Virtus Fund Advisers, LLC. Matt Clark stated that he and Sherry Nelson reviewed the proposed changes. He said he believed them to be reasonable and recommended Council approval.

JARROD JOHNSON MOVED, SECONDED BY MARY HOWARD, TO APPROVE THE ASSET ALLOCATION AND FUND CHANGES TO THE COLLEGEACCESS 529 PLAN PROPOSED BY VP DISTRIBUTORS AND VIRTUS FUND ADVISORS, LLC AND PRESENTED TO THE INVESTMENT COUNCIL ON THIS DAY AND TO AUTHORIZE THE STATE INVESTMENT OFFICER TO EXECUTE THE NECESSARY DOCUMENTS AND TAKE ANY OTHER ACTIONS DEEMED NECESSARY TO CARRY OUT THE CHANGES AS PRESENTED. MOTION PASSED UNANIMOUSLY.

LOREN KOEPESELL MOVED, SECONDED BY KELLY MEINERS, TO APPROVE VP DISTRIBUTORS, LLC RECOMMENDATION OF PRICEWATERHOUSECOOPERS AS THE AUDITOR FOR THE COLLEGEACCESS 529 PLAN FOR THE YEAR ENDING DECEMBER 31, 2022. MOTION PASSED UNANIMOUSLY.

13) Limited Partnerships Review

MARY HOWARD MOVED, SECONDED BY JARROD JOHNSON, TO GO INTO EXECUTIVE SESSION PER SDCL 1-25-10 FOR THE PURPOSE OF RECEIVING AND DISCUSSING INVESTMENT INFORMATION THAT IS CONFIDENTIAL UNDER SDCL 1-27-1.6(5). MOTION PASSED UNANIMOUSLY.

The Council went into executive session at 9:40 a.m. Staff remaining to participate in or facilitate the presentation and discussion included Matt Clark, Tammy Otten, Chris Nelson, John Richter, Darci Haug and Sarah Rust.

*The Investment Council recessed at 10:14 a.m. to meet with the LRC Executive Board Subcommittee on the Investment Council, followed by the presentation to the full Executive Board at 12:10 p.m. General session reconvened at 1:34 p.m.*

14) Executive Board Meeting Review

The Council discussed the LRC Executive Board meeting. The Council's presentation included FY 2022 investment performance and the Council's FY 2024 budget request, which the Executive Board approved. It was noted that the details of the State Investment Officer's earned incentive were reviewed with the Executive Board Subcommittee and provided to all Executive Board members.

15) New/Old Business

Greg Kulesa noted that the Investment Officer Performance Evaluation has been moved to the upcoming November meeting.

16) Future Meeting Dates

The next Investment Council meeting will be held in Sioux Falls on November 17, 2022.

17) Adjournment

Chair Greg Kulesa declared the meeting adjourned at 1:43 p.m.